

**REQUEST FOR PROPOSALS to the Utah State Legislature
Audit of Long-Term Actuarial Projections Relating to
the State Retirement System, 2010-01**

ADDENDUM 1

Addendum Date: February 26, 2010

ITEM 1:

Question:

Section III. 1. talks about the report needing to be a "...comprehensive, detailed audit of the PROJECTION REPORT, including all projections, assumptions and calculations made, all data used, and all results reached in the PROJECTION REPORT." Our first question relates to our role in reviewing the data. Generally actuaries rely on the data they are given and only review it for reasonableness. We assume that the plan's auditor tests the data for accuracy. For example, if the salary information provided were based on the wrong definition of pay, the actuary would have no way of knowing this. Can our role with respect to the data be simply to review it for reasonableness?

Answer:

The auditor may assume that the data given is accurate, unless there is reason to believe otherwise. We do not expect the auditor to separately research the data. The purpose of the RFP is to determine whether the calculations, projections, and assumptions made, and the results reached, in the PROJECTION REPORT are accurate. The audit should include a technical review of the projections and a professional peer review of the actuarial assumption and methods used by GRS. The review should involve the following:

- verification that the data from URS was complete and that GRS used it correctly.
- review of sample test lives from GRS that show the details of the valuation calculations.
- checking numbers in the valuation report for accuracy.
- review of actual benefit calculations and purchase of service calculations provided by URS.
- a comparison of applicable Utah law with the benefits being valued.
- review of the actuarial value of asset calculations and methodology.
- a comparison of assumptions with those used by similar systems.

In summary, the objectives of the actuarial review are as follows:

- To assess the validity, completeness, and appropriateness of the member data, and the demographic and financial information used by GRS in the valuation of URS funds.
- To assess whether the valuation method and procedures used by GRS are reasonable and consistent with generally accepted actuarial standards and practices, are appropriate for URS' structure and funding objectives, and are applied as stated in the GRS valuation reports. Report and deviations from accepted standards.
- To assess whether the actuarial valuation assumptions are reasonable and consistent with generally accepted actuarial standards and practices, are reasonable based on URS' experience, and are appropriate for URS' structure and funding objectives.

ITEM 2:

Question:

Can (does) our role include providing ideas other than those presented in the GRS Projection Report?

Answer:

The auditor will not be required to provide other ideas.

ITEM 3:

Question:

Attachment 2 contains the “Agreement for Consulting Services”. This appears to be a wide agreement covering anything “arising out of, resulting from or relating to any services provided...” (Section 7). Assuming that our work is complete and accurate, would we have any responsibility to the State and if so why?

Answer:

While we cannot provide legal advice with respect to the agreement, we can inform you that the purpose of Section 7 is to protect the Legislature from liability that might otherwise accrue to it due to the acts or omissions of the consultant.

ITEM 4:**Question:**

Does the GRS contract contain the same indemnification language found in Section 7 of Attachment 2?

Answer:

No. Attachment 2 was drafted by the Office of Legislative Research and General Counsel (OLRGC). The contract with GRS was not drafted by OLRGC.

ITEM 5:**Question:**

It appears that the RFP is looking for vendors to provide an audit of the work already performed by GRS in their letter dated November 10, 2009. This projection work was based on the January 1, 2009 actuarial valuation work. In order to evaluate the accuracy of the application of the reported actuarial methods and assumptions, the audit actuary will need to first confirm the January 1, 2009 valuation results. Can you please confirm if the intention is to have the audit actuary replicate the actuarial calculations performed by GRS in preparing the 2009 valuation?

Answer:

It is our intention to have the actuarial calculations in the PROJECTION REPORT replicated, to the extent possible, in order to ensure their accuracy. See item 41.

ITEM 6:**Question:**

Assuming a full replication of the 2009 valuation is the basis for starting the audit of the projection studies, please confirm that:

- a. the audit actuary will receive from the State Retirement System the same membership data, asset information and any other data used by GRS in preparing the 2009 valuation.
- b. GRS will be able to provide some sample calculations from their valuation system that was used for the 2009 valuation. These samples usually number about a dozen and reflect different characteristics of both active and retired members. In most actuarial audits, using these individual "trace records" assists both actuarial firms in determining if there are any significant differences in the applications or whether

these differences arise primarily due to variations of valuation system features. It is common practice to receive these individual calculations when performing an actuarial valuation audit.

Answer:

It is our intention to provide you with the data and sample calculations described in your question.

ITEM 7:

Question:

Regarding the scope of the projections themselves, it would appear from the GRS letter dated November 10, 2009, that the Retirement and independent Entities Committee had selected the specific projection scenarios to be studied. Can we assume that the scope of the different scenarios is to remain the same for purposes of the audit? That is, are there no additional scenarios to be reviewed at this time? Should additional scenarios be recommended?

Answer:

It is our intention that the scope of the projection scenarios will remain the same for the purposes of the audit, except that we also seek an audit of the actuarial analysis relating to 3rd Substitute SB 63 and 3rd Substitute SB 43 (See Item 41). These bills are available on our website.

ITEM 8:

Question:

Please clarify if we have misunderstood the defined scope of services being requested for this RFP as outlined in [the three preceding questions]. In particular, does the replication of both the 2009 valuation as well as the projections as described in the GRS letter meet the purposes and expectations of the RFP? Was there any other expectation from this RFP?

Answer:

See the answers to the preceding three questions and to question 1.

ITEM 9:

Question:

Is the Legislature willing to consider limiting liability under its contract to \$5 million?

Answer:

Yes.

ITEM 10:

Question:

Is the Legislature willing to amend the contract to provide that legal disputes will be resolved by binding arbitration or a federal bench trial rather than a jury trial?

Answer:

No.

ITEM 11:

Question:

Is the Legislature willing to amend the contract so that the proposer does not incur indemnification obligations for third party claims, unless the acts or omissions of the proposer have caused personal injury, death or property damage?

Answer:

The Legislature is willing to consider reasonable modifications to the indemnification provisions. However, the limitation to personal injury, death, or property damage is too restrictive. The Legislature needs protection against other types of claims that could be brought against it based on the actions of the consultant as the consultant interacts with state employees. Examples of such claims include discrimination claims or sexual harassment claims.

ITEM 12:

Question:

Is the Legislature willing to amend the contract so that the proposer is able to keep any tools not specifically developed for this study?

Answer:

Yes.

ITEM 13:

Question:

Is the Legislature willing to amend the contract so that the proposer is not responsible for the use of any unfinished/draft work if the contract is prematurely terminated by the Legislature?

Answer:

Yes, provided that the unfinished or draft work is generated, and provided, in good faith.

ITEM 14:

Question:

Is the Legislature willing to amend the contract to provide that a financial audit of the consultant cannot be performed by a competitor firm?

Answer:

Yes, provided that an adequate definition of a "competitor firm" can be agreed upon.

ITEM 15:

Question:

Is the Legislature willing to amend the contract so that the proposer may retain one copy of materials after conclusion of the services?

Answer:

Yes, provided that the Legislature is provided with a copy of all of the materials that the proposer retains a copy of.

ITEM 16:

Question:

Is the Legislature willing to amend the contract include a force majeure clause?

Answer:

Yes.

ITEM 17:

Question:

Why is the Utah State Legislature requesting an audit of the actuarial projections performed by GRS?

Answer:

The Legislature desires to take extra care to ensure that its policy decisions regarding the retirement system are based on the best information possible. While the Legislature has no reason to believe that the projections made by GRS are inaccurate, it wants the assurance that a separate entity has reviewed the projections for errors or improper assumptions.

ITEM 18:

Question:

What is the Legislature's budget for this project?

Answer:

An exact amount has not been determined.

ITEM 19:

Question:

Will the Legislature give preference to a local vendor?

Answer:

No.

ITEM 20:

Question:

Will you provide a copy of the actuarial valuation report or other documentation showing the overall benefit design and structure and the various assumptions and methods used in the most recent actuarial valuation?

Answer:

Yes. This documentation will be provided to the successful proposer.

ITEM 21:

Question:

The RFP indicates that the engagement will include an audit of the assumptions used in the calculations. Please clarify the scope of the assumption audit. Are you requesting that such audit include an experience study that would require the contractor to collect and analyze historical data, or a high-level review for reasonableness based on an understanding of the retirement system?

Answer:

See the answers to questions 1, 7, and 8.

ITEM 22:

Question:

The RFP indicates that the engagement will include an audit of the data used in the calculations. Please clarify the scope of the data audit. Are you requesting that such audit include an independent collection and reconciliation of data as of 1/1/2009, or a high-level review of the data used by the actuary for internal consistency and completeness?

Answer:

See the answers to questions 1, 7, and 8.

ITEM 23:

Question:

Would the State accept a modification of its limitation on liability to be unlimited in the case of the vendor's gross negligence or willful misconduct, but limited for other causes?

Answer:

See the answers to questions 9 and 11.

ITEM 24:

Question:

Would the State accept a modification of its limitations on lobbying to extend only to the engagement team performing the work under this engagement, given the size and multidisciplinary nature of our firm?

Answer:

No. It is imperative that the consultant not be improperly influenced, nor appear to be improperly influenced, in the performance of the audit.

ITEM 25:

Question:

Would the State accept a modification of its debarment requirement to extend only to the engagement team performing the work under this engagement, given the size and multidisciplinary nature of our firm?

Answer:

The Legislature would accept a modification that the debarment limitation relate to the engagement team, anyone in authority over the engagement team, and the firm itself. The modification would also need to require that the debarment requirement relates to anyone outside of those enumerated in the preceding sentence if that debarment would prohibit any of those enumerated from providing the audit services required under the agreement.

ITEM 26:

Question:

May we propose any modifications to the standard indemnity provisions of the contract (Section 7), such as a reasonable limitation on liabilities, such as are provided in our other contracts with the State of Utah?

Answer:

See the answers to questions 9 and 11.

ITEM 27:

Question:

Will we be able to obtain any detailed sample actuarial calculations performed by GRS in order to match costs and liabilities?

Answer:

Yes.

ITEM 28:

Question:

When will January 1, 2009 Valuation Reports become available?

Answer:

The January 1, 2009, valuation report will be made available to the successful proposer.

ITEM 29:

Question:

Will the January 1, 2009 valuation data be made available from the Plan actuary?

Answer:

Yes.

ITEM 30:

Question:

When was the last actuarial audit performed on the State of Utah Retirement System?

Answer:

2004.

ITEM 31:

Question:

Can we get a copy of the last actuarial audit report (if any)?

Answer:

The last actuarial audit will be made available to the successful proposer.

ITEM 32:

Question:

What were the fees paid for that last actuarial audit?

Answer:

\$40,000

ITEM 33:

Question:

When was the last actuarial audit performed for the state retirement system? Was it a limited scope audit (review of actuarial results only) or a full scope audit (independent calculation of actuarial results)? Is it your intent for the consultant to also perform an audit of the last actuarial valuation performed for the state retirement system?

Answer:

The last actuarial audit of the retirement system was performed in 2004. The answer to question 1 describes the scope of that audit. The answers to questions 1, 7, and 8 describe the scope of, and expectations for, the audit.

ITEM 34:

Question:

Duties of the consultant stated in section 3.3 of attachment 2 require an adjustment of each projection in the report that contains errors or where there are disagreements. Is it your intent for the consultant to independently perform a full scope audit of the actuarial valuation and projection results?

Answer:

See the answers to questions 1, 7, and 8.

ITEM 35:

Question:

Is there a reason to believe there are errors with the projections performed by the state retirement system's actuary? If so, what are they?

Answer:

See the answer to question 17.

ITEM 36:

Question:

What is the intended use of the study results?

Answer:

See the answer to question 17.

ITEM 37:

Question:

Have any proposed changes to Utah state statutes affecting the state retirement system been introduced during the current legislative session? If so, what are they?

Answer:

Yes. HB215, HB333, HB 359, SB42, SB43, SB94, SB171, and SB240. All of these are available on the Legislature's website.

ITEM 38:

Question:

Has the Utah State Legislature contracted for similar services in the recent past? If so, who provided those services, and what did the Utah State Legislature pay for those services?

Answer:

The Legislature has not contracted for similar services in the recent past. The last actuarial audit of the retirement system was performed in 2004, by Mellon, under contract with URS. URS paid \$40,000 for that audit.

ITEM 39:

Question:

Can we assume that URS staff and GRS staff will provide the necessary data and will be available to answer reasonable questions as needed to complete the audit?

Answer:

Yes.

ITEM 40:

Question:

Can we rely on the results of the most recent URS valuation, the projection of benefit payments for those covered in that valuation, and the projected number and payroll for new hires? Or, do you expect us to replicate those results as part of the audit?

Answer:

Yes, the successful proposer can rely on the results of the most recent URS valuation, the projection of benefit payments for those covered in that valuation, and the projected number and payroll for new hires. Also, see the answer to question 5.

ITEM 41:

The definition of "PROJECTION REPORT", in Section II.4 of the RFP is changed to read as follows:

- "4. "PROJECTION REPORT" means:
- a. the "long-term projections of key actuarial results under various scenarios" made by GRS, included in the letter (and the accompanying exhibits) attached to this RFP as "Attachment 1";
 - b. the actuarial analyses of GRS relating to 3rd Substitute SB 63; and
 - c. the actuarial analyses of GRS relating to 3rd Substitute SB 43."

These actuarial analysis relating to 3rd Substitute SB 63 and 3rd Substitute SB 43, and the data and calculations necessary to perform an actuarial audit of these analyses, will be made public on March 16, 2010. These bills are available on our website.

ITEM 42

The following anticipated timeline dates are changed as follows:

Final Date for Addenda to RFP: February 26, 2010 at 6:00 p.m.

RFP Closing Date: March 30, 2010 at 3:00 p.m.

Opening of Responses to RFP: March 31, 2010 at 10:00 a.m.

Oral Presentations: May 19, 2010 at 9:00 a.m.

Award of Contract: May 19, 2010 at 1:00 p.m.

Delivery of Completed Audit: October 1, 2010 at 9:00 a.m.

Formal Presentation of Audit: October 20, 2010 at 9:00 a.m.